

UNITED STATES
AND EXCHANGE COMMISSION
Washington, D.C. 20549



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**AUDITED REPORT
FORM X-17A-5
PART III**

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FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the RECD S.E.C.
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/01 AND ENDING 12/31/01
MM/DD/YY MM/DD/YY

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A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Tullett & Tokyo Liberty Securities Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

80 Pine Street, 30th Floor

New York NY 10005
(City) (No. and Street) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

William C. Holub (212) 208-3873

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Ernst & Young LLP

787 Seventh Avenue New York NY 10019
(Address) (City) (State) (Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).


OATH OR AFFIRMATION

I, William C. Holub, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of Tullett & Tokyo Liberty Securities Inc., as of December 31, 2001, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Signature

Chief Financial Officer

Title


SUSAN DEMARCO
Notary Public Notary Public, State of New York
No. 01DE6006362
Qualified in Richmond County
Commission Expires May 4, 2002

This report** contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Operations.
- ☐ (d) Statement of Cash Flows.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims or Creditors.
- ☐ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A or Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☐ (o) Schedule of Segregation Requirements and Funds in Segregation for Customers Trading on U.S. Commodity Exchanges.
- ☐ (p) Statement of Secured Amount and Funds Held in Separate Accounts for Foreign Futures and Options Customers Pursuant to Commission Regulation 30.7.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

STATEMENT OF FINANCIAL CONDITION
Tullett & Tokyo Liberty Securities Inc.

December 31, 2001
with Report of Independent Auditors

TULLETT & TOKYO LIBERTY SECURITIES INC.

Statement of Financial Condition

December 31, 2001

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Report of Independent Auditors

To the Director and Stockholder of
Tullett & Tokyo Liberty Securities Inc.

We have audited the accompanying statement of financial condition of Tullett & Tokyo Liberty Securities Inc. (the "Company") as of December 31, 2001. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Tullett & Tokyo Liberty Securities Inc. at December 31, 2001 in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

February 15, 2002

TULLETT & TOKYO LIBERTY SECURITIES INC.

Statement of Financial Condition December 31, 2001

Assets

Cash	\$ 10,724,500
Short term investments	17,792,300
Receivable from brokers, dealers, financial institutions and clearing organizations	117,038,100
Due from affiliates	4,337,900
Prepaid expenses	16,300
Income taxes receivable	944,400
Excess of cost over fair value of assets acquired (net of accumulated amortization of \$5,531,000)	4,261,600
Other assets	58,600
	<hr/>
	\$ 155,173,700
	<hr/> <hr/>

Liabilities and Stockholder's Equity

Payable to brokers, dealers and financial institutions	\$ 97,454,700
Accrued personnel costs	27,293,000
Accounts payable and accrued liabilities	1,293,500
Due to affiliates	492,300
	<hr/>
	126,533,500
	<hr/>
Stockholder's equity	28,640,200
	<hr/>
	\$ 155,173,700
	<hr/> <hr/>

The accompanying notes are an integral part of this financial statement.

TULLETT & TOKYO LIBERTY SECURITIES INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2001

1. ORGANIZATION

Tullett & Tokyo Liberty Securities Inc. (the "Company") is engaged primarily as a broker of mortgage-backed securities, global debt, corporate securities, emerging market debt and equities from its offices in New York. The Company is a wholly-owned subsidiary of Liberty Brokerage Investment Corp. ("LBIC"), which is a wholly-owned subsidiary of Tullett & Tokyo Liberty plc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimates - The preparation of the statement of financial condition in conformity with generally accepted accounting principles in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the statement of financial condition and accompanying notes. Actual results could differ from those estimates.

Securities transactions - Securities transactions are recorded on a trade date basis. Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net on the statement of financial condition.

Fair Values of Financial Instruments - The carrying amounts of cash, short term investments, receivables from/payable to brokers, dealers, financial institutions and clearing organizations, due from/to affiliates, income taxes receivable, other assets, accrued personnel costs, and accounts payable and accrued liabilities reported in the statement of financial condition approximate their fair values.

Short term investments - Short term investments are recorded at cost plus accrued interest, which approximates fair value. The investments mature on various dates throughout 2002.

Excess of cost over fair value of assets acquired - Excess of cost over fair value of assets acquired is being amortized on a straight line basis over fifteen years.

On January 1, 2002 the Company implemented the provisions of Statement of Financial Standards No. 142, Goodwill and Other Intangible Assets ("FAS 142"), regarding the impairment of its intangible assets. On a periodic basis, the Company reviews its intangible assets for impairment when events or changes in circumstances arise that may affect the underlying basis of the assets. The Company does not expect the implementation of FAS 142 to have a material impact on its financial statements.

Income taxes - The Company is included in the consolidated U.S. Federal and combined state and local income tax returns of LBIC. For financial reporting purposes, the Company determines its income tax provision on a separate company basis in accordance with an informal tax sharing agreement with LBIC. Amounts due to or receivable from LBIC, with respect to current income taxes, are settled currently.

Continued

TULLETT & TOKYO LIBERTY SECURITIES INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2001

3. SHORT TERM INVESTMENTS

Short term investments are comprised of the following:

Money market funds	\$ 15,003,500
U.S. treasury bills	2,788,800
	<u>\$ 17,792,300</u>

As of December 31, 2001, \$15,003,500 of the Company's short term investments is held at one major U.S. financial institution. The remaining short term investments are also held at major financial institutions and on deposit to meet the collateral requirement of one of the Company's clearing organizations (\$992,600).

4. RECEIVABLE FROM AND PAYABLE TO BROKERS, DEALERS, FINANCIAL INSTITUTIONS AND CLEARING ORGANIZATIONS

Amounts receivable from and payable to brokers, dealers, financial institutions and clearing organizations are comprised of the following:

	<u>Receivable</u>	<u>Payable</u>
Commissions	\$ 7,878,800	\$ -
Securities failed-to-deliver / receive	100,847,500	96,071,700
Clearing organizations	8,311,800	-
Other amounts	-	1,383,000
	<u>\$ 117,038,100</u>	<u>\$ 97,454,700</u>

5. INCOME TAXES

The deferred tax asset of \$944,400 arises from temporary differences between financial statement and taxable income. These temporary differences include, deferred compensation, and the allowance for doubtful accounts. No valuation allowance has been established since, based upon available evidence, it appears more likely than not that the deferred tax asset will be realized.

Continued

TULLETT & TOKYO LIBERTY SECURITIES INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2001

6. REGULATORY REQUIREMENTS

As a broker/dealer registered with the SEC and the NASD, the Company is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. At December 31, 2001, the Company had net capital of approximately \$12,311,400, which was approximately \$12,051,400 in excess of the minimum net capital requirements. The Company is exempt from the provisions of SEC Rule 15c3-3 relating to the maintenance of customer reserve accounts and the possession or control of customer securities pursuant to paragraphs (k)(2)(i) and (k)(2)(ii), since the Company does not hold funds or securities of customers.

Dividend payments and other equity withdrawals are subject to certain notification and other provisions of the net capital rules of the SEC.

7. EMPLOYEE BENEFIT PLANS

The Company's parent maintains a Retirement and Savings Plan (the "Plan") pursuant to Section 401(k) of the Internal Revenue Code for its wholly-owned U.S. operations. The Plan, a defined contribution plan covering all employees over the age of 21, is funded by contributions of its employees.

8. OFF-BALANCE-SHEET CREDIT RISK

The Company primarily executes securities transactions on a riskless principal basis for undisclosed principals. Substantially all transactions settle within three business days for cash. The Company has a policy of reviewing, on an ongoing basis, the credit standing of its counterparties, which are primarily financial institutions.

The Company may be exposed to off-balance-sheet credit risk from unsettled transactions including fails to deliver/receive. In the event a counterparty is unable to fulfill its purchase or sale transaction, the Company may be then obligated to purchase or sell at market value which may result in a loss if the amount is different from the contract amount of the transaction. The contractual amount of both unsettled purchase and sale transactions with settlement dates subsequent to December 31, 2001 was approximately \$541,498,500. Settlement of the Company's open securities transactions is not expected to have a material effect on the Company's financial position.

Continued

TULLETT & TOKYO LIBERTY SECURITIES INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2001

9. RELATED PARTY TRANSACTIONS

Due from affiliates includes a receivable from LBIC for \$3,047,800. This receivable represents interest bearing cash advances made to LBIC, which are payable on demand, net of allocated general and administrative expenses payable and income taxes payable pursuant to its informal tax sharing agreement with LBIC (see Note 2). This amount has been subordinated to the claims of the general creditors of LBIC and bears interest at 1% over the prime rate.

Due to affiliates includes payables to other affiliates of \$492,300, consisting of non-interest bearing cash advances which are payable on demand.

The Company clears certain of its mortgage-backed, U.S. Government, and corporate securities on a fully disclosed basis through an affiliated broker registered with the SEC and the NASD. As of December 31, 2001, the Company had a net receivable from this affiliate totaling \$4,689,400, which is reflected in "Receivable from brokers, dealers, financial institutions, and clearing organizations" in the accompanying statement of financial condition.